

GCSE Business Studies

The External Environment



These documents are part of a larger blended learning pack, developed to support GCSE Business Studies. Each document is complemented by a range of digital resources.

These digital resources could be used for whole class stimulus and discussion before directing the students to the corresponding work in the PDF documents, or the students could be asked to work in groups on the paper resources found in the packs and then the digital resource used for feedback and to check understanding.

The External Environment

While a business may have control over many factors, it is important to remember that they operate in an ever-changing environment and there are many things they have no control over. Some external factors may have a positive impact on the business, while the effects of others may be negative.

A business will never be able to control these factors, but it is important that they take them into account in their planning and business strategy.

Activities of competitors

We know that businesses operate in fast-moving and competitive environments, and it is essential that they monitor their competition and market trends in order to stay competitive.

Read the news article below and answer the questions that follow.

UK supermarket chain Morrisons, the UK's fourth largest supermarket group, has said its sales over Christmas were disappointing. It said that in the six weeks to 30 December sales fell 2.5% compared with the same time last year.

Morrisons said the figures showed it needed to improve its promotions. It also said that they showed the importance of online shopping, which Morrisons does not offer.

Morrisons' chief executive Dalton Philips said that his company was not getting over its points of difference - its skilled butchers, bakers and fishmongers.

"We do so much more than anyone else and we aren't getting that message across."

He said this would be a priority for newly appointed trading director Casper Maijer.

The Bradford-based chain is in the process of improving its advertising, having announced at the end of last week that it had signed Ant and Dec to front its commercials.

Adapted from www.bbc.co.uk/news/business

It is clear from this article that Morrisons failed to take into account the activities of its competitors when planning its business strategy, and lost valuable customers as a result.

Rank, in order of importance, the reasons for Morrison's disappointing performance.

Reason	Rank
No online retail presence	<input type="text"/>
Lack of home delivery	<input type="text"/>
Not price competitive	<input type="text"/>
Failure to promote points of difference	<input type="text"/>
Poor quality advertising	<input type="text"/>
Loyalty cards offered by competitors	<input type="text"/>
Doesn't offer wide range of services (e.g. opticians)	<input type="text"/>
Lack of 24 hour opening	<input type="text"/>
Lack of stores/poor range of store formats	<input type="text"/>

Imagine you are the newly appointed Trading Director.

Draft a plan outlining three ways in which you will turn around Morrisons performance and begin to challenge Tesco, Asda and Sainsbury's.

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Past Paper Examination Question - 2006

David and Jane Chang run a guest house at a resort on the North Wales coast.

A theme park is to be opened within five miles of David and Jane's guest house.
Assess the likely impact that this will have on their business.

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The Changing Use of ICT in Business

Many businesses have taken the opportunities that information and communication technology (ICT) has offered them. ICT began to significantly change the way in which many businesses operated in the 1980s and new inventions and innovations are continually being offered for business use.

When mobile phones were first launched, they were aimed solely at business people and were designed for business use. However, mobile phone companies soon spotted the opportunity to reach out to a large market segment and set about designing phones that would appeal to the general public, to boost profitability.

The creation, storage and retrieval of data

ICT allows businesses to...

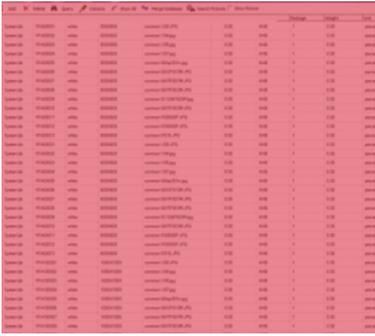
- Create (write)
- Store (keep for future use)
- Retrieve (find when needed)
- Edit (change and add to when necessary)

... a variety of types of documents and data

This can be achieved through the use of specialised software involving:

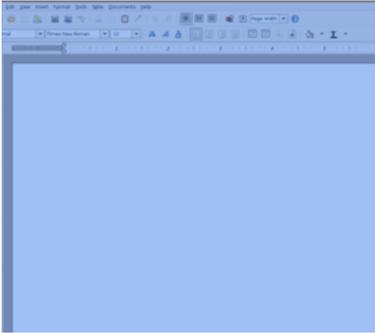
- Databases
- Word Processing
- Spreadsheets
- Desk Top Publishing

Tasks which can be carried out are shown in the table on the next page:



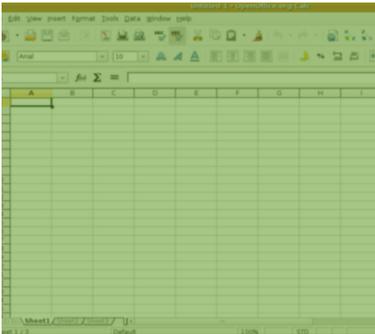
Database

- Maintaining stock records
- Customer contact details
- Staff records
- Mail merge data in to word processing software



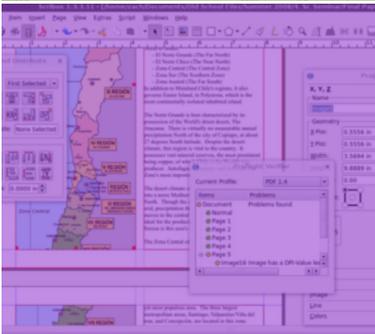
Word Processing

- Produce individual letters and letter templates
- Create memos
- Draft agendas for meetings
- Record minutes of meetings



Spreadsheet

- Create cash flow forecasts
- Produce financial accounts e.g. profit and loss
- Model scenarios using formulae
- Create graphs from data



Desktop Publishing/Graphics

- Produce promotional materials
- Design logos
- Create staff newsletters/customer magazines
- Design websites

ICT to communicate



Many businesses use ICT in order to communicate in a more personalised and meaningful way with their customers.

For example, a website may track the products a particular customer purchases frequently and send an email when items they have bought are on special offer.

Text messages can be sent to update customers on the status of their order or to let them know when they can expect a member of staff to visit.

Social networks can be created, to allow customers of a particular product or brand to stay informed of the latest updates, or contact the business to request the solution of a problem or a query.

ICT has allowed businesses to market their products more effectively to their particular market segment, on media such as Twitter, Facebook and so on.

ICT has also impacted on the way a business communicates with its employees and how staff communicate between different locations. It is common in many businesses for staff to have business mobile telephones that allow them to access emails on the move and be contacted easily by their managers or customers.

Laptops, and now tablet computers, are also a continuation of this trend.

Businesses have also been able to make cost savings on staff travelling between offices/sites through the use of video-conferencing, which allows 'virtual meetings' to be held between offices without the need for employees to travel physically.

ICT and production

Computer Aided Design (CAD) is a process whereby designs are displayed digitally, often in 3D, and can be viewed from all angles. CAD allows the design team to edit and test their design on the computer with minimal cost and correct any problems before they arise in the production process. CAD can also be used to estimate production costs for the final product. Once the designer is fully satisfied with the design they have produced, the plans can be fed into a computer for the product to be manufactured.

Computer Aided Manufacture (CAM) is a process whereby designs are input into a computer system and the computer then controls the production of the item through automation and robotics.

Past Paper Examination Question - 2008

Ifor Williams Trailers Ltd aims to produce high quality trailers using a Computer Aided Manufacturing (CAM) system.

Outline *one* advantage and *one* disadvantage for Ifor Williams Trailers Ltd of using a Computer Aided Manufacturing (CAM) system.

(4)

Advantage

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Disadvantage

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Consequences of ICT in business

ICT has allowed businesses to use technology to produce goods quicker and with greater accuracy.

The use of ICT in the business environment has a number of implications:

Innovation

Developments in ICT are rapid and customers are always seeking the most up-to-date equipment. Businesses need to be aware of consumers' ever more demanding requirements as well as the rapid changes in production processes.

Investment

Rapid developments in ICT mean that businesses are constantly trying to adopt the latest technology, in order to gain an advantage over their competitors.

Constantly updating ICT systems can become very expensive.

Marketing

Consumers need to be kept informed of new products on the market. Traditionally, keeping customers informed of new developments was expensive. However, new technologies such as social media have allowed businesses to reach a wide audience for relatively little cost.

New technology has also allowed businesses to market their products in new and innovative ways.

Employment opportunities

The increased use of ICT in the workplace has had a human cost, particularly in some aspects of production and customer service. Computers have replaced staff in areas such as banking, insurance and manufacturing. However, the growing demand for ICT, software and hardware, has created many additional employment opportunities.

Threats

Some of the threats posed by the use of ICT have been suggested above, but in addition businesses need to be aware of the importance of computer security.

Systems need to be protected from people trying to use the Internet to gain confidential information about businesses and their customers.

Past Paper Examination Question - 2012

Ruby and Frank have always wanted to start their own business. They have decided to set up their business, called Retro, on the outskirts of Swansea. Their shop will meet the increased demand for goods fashionable between 1950 and 1980. Some of the goods will be from the actual time and others will be reproductions.

Ruby and Frank appreciate the importance of ICT to their business.

Suggest and explain *two* ways in which they can use ICT in the operation of their business.

(4)

(i)

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(ii)

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Environmental Factors

Businesses producing goods take natural resources like wood, oil and metals and transform them into products that make our lives easier, like chairs and cars.

The natural resources available to us are limited, we only have them available to us on our planet and once these have run out it will not be possible to create more.

In addition, the production of goods and services has other negative effects on society.

These social costs include:

- Noise pollution
- Air pollution
- Water pollution
- Light pollution
- Litter
- Congestion
- Waste

Human beings are never satisfied with what we have – as soon as we have a new pair of shoes we think about the next pair we are going to purchase. Our wants are described as being unlimited; we constantly demand new clothes, high-tech cars, the latest gadgets etc. We consume more and more products while being unconcerned by the environmental impact of our lifestyle.

Businesses are under increasing pressure from consumers and governments to act in a responsible manner and to ensure that our environment and resources are available for future generations to enjoy. This is often referred to as **sustainability**.

There are many ways that businesses have responded to this pressure:

- Reduced the amount of packaging on products (e.g. Easter eggs).
- Increased recyclability of packaging and the introduction of biodegradable packaging.
- Promotion of recycling schemes (e.g. old clothes and electronic products).
- Encouraging the re-use of carrier bags.
- Energy saving schemes (e.g. low-voltage lightbulbs and energy saving equipment) and encouraging us to switch off lights and computers when they are not in use.
- Using alternative sources of energy (e.g. solar panels).
- Reduced water consumption (e.g. concentrated fabric softeners).
- Reducing their carbon footprint (e.g. through the miles products travel).
- Encouraging smarter use of transport, e.g. asking employees to walk or cycle to work, or use car sharing if cars are necessary.
- Introducing 'plant-a-tree' schemes.

Past Paper Examination Question - Specimen paper

In 2007 a report by The National Consumer Council placed ASDA Supermarket behind three other supermarkets based on their eco-friendly policies.

(a) Suggest two ways in which ASDA Supermarkets could improve its eco-friendly policies. (2)

(i)

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(i)

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(b) Explain why your suggestions are important. (2)

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Acting ethically

In addition to environmental pressures, businesses are also facing pressure to act ethically, this means knowing what is morally right from wrong and ensuring the business act in a manner that is fair and right.

Ethical awareness has influenced businesses in many ways, for example, some businesses only seek to purchase products from Fairtrade producers in order to ensure suppliers receive a fair price for their goods. Other businesses have sought to raise wages to improve living standards for their workers in poorer countries.

Businesses who act in an ethical and/or environmentally friendly way will be viewed in a better light by consumers, which in turn may result in consumer loyalty. The business may see its sales increase, or may be able to charge a higher price for its products, as a result of its ethical/environmental credentials.

Government Legislation

British businesses are ruled by laws set by the UK Government and the European Union. In Wales, businesses are also ruled by the laws set by the Welsh Assembly Government. These laws govern how the business should act and determine the punishment if laws are disobeyed.

Such laws include:

Employment law

There are a number of different laws that regulate how people in work are treated, covering issues such as pay, contracts of employment and equality.

In general, employees are legally entitled to:

1. A contract of employment

A contract of employment details the terms and conditions of employment for an employee (for example, hours of work, holiday entitlement, sick pay and notice).

2. Regular payslips

The payslip should show what pay has been awarded and what deductions have been taken.

3. Holidays

Full time employees are entitled to 28 days holiday per year.

4 Maximum working week

Workers have the right to work a maximum working week of 48 hours.

5 Redundancy pay

If an employee has worked for a business for at least two years they are entitled to redundancy pay if they are being made redundant.

6 Work until they are ready to retire

7. Claim unfair dismissal

Employees have a right to claim compensation if they have been unfairly dismissed.

8. Minimum wage

Minimum wage is a legal minimum wage that workers are entitled to receive.

9 Equality laws

Equality laws make it illegal for businesses to discriminate against their workers, particularly with regards to gender, race, age or disability.

Environmental law

Environmental law covers many of the issues already discussed, but in addition:

1. Government regulation

There are a number of laws that restrict the pollution of the environment by business activity.

2. Compensation

Business can be forced to compensate those affected by their pollution.

3. Government grants

Businesses can be offered grants and tax allowances to encourage them to reduce their pollution or increase their recycling processes.

Health and Safety law

Health and Safety legislation gives employees the right to work in an environment where they are safe and not at risk of getting hurt or ill. The law gives responsibilities to both the employer and the employee in keeping the work place safe.

Consumer law

There are many laws that control how businesses behave towards consumers, these laws cover a range of areas including:

1. The quality of goods sold

Goods must be:

- of satisfactory quality i.e. fit for sale.
- fit for purpose i.e. do what they are supposed to do.
- as described on the packaging or by the sales person.

If they are not all three, the customer can demand a refund.

2. Weight and measures

The weight and measurement of goods should be as purchased by the consumer. Under weight or short measure goods are illegal.

3. Food consumption

Food meant for humans must be fit for human consumption.

4. Paying for goods

People cannot be forced to pay for goods that they have not ordered.

5. Product description

Businesses must not make false claims about the products they are selling or advertising.

Suggest two reasons why it is important for the business that the quality of goods meets customer expectations.

1.
2.

Competition law

Competition laws aim to ensure that firms compete fairly, so that consumers benefit from fair prices and a competitive market. Businesses cannot force customers to buy goods solely from them.

No business is allowed to become too big and dominate the market to the disadvantage of its competitors or customers.

Businesses can be fined if they are found, as a result of an investigation, to have acted in a way that prevented or restricted competition. In some cases businesses can be ordered to sell part of their business if their market share is deemed too large.

Copyright law

Copyright laws protect people who have created original pieces of work, and give them rights to control how their work is used by others. Examples of such work include:

- Music (including lyrics and the music itself)
- Written word (including books, poems and plays)
- Artistic works (such as sculptures, drawings, paintings and photographs)
- Films, videos and broadcasts
- Software and games

As soon as something has been created and put to paper it can be protected by copyright, this means that the law prevents:

- Unauthorised copying of the work
- The resale, redistribution or rental of a piece of work
- Unauthorised performance or display of the work

For example, if your local drama club wanted to perform “My Fair Lady” they would need to apply to the owner for permission to use their work. Usually, the owner of the material would charge a fee for its use.

Draw a line to match each key term with its definition.

Key Terms:**Employment law****Competition law****Copyright law****Consumer law****Health and
Safety law****Environmental law****Definitions:**

Regulates how people use the work of other people, such as music, films and plays.

Ensures that goods are as described and fit for the purpose for which they are sold.

Ensures that employees are kept safe and healthy in the workplace.

Aims to ensure that firms compete fairly so that consumers benefit from fair prices and that goods are freely available.

Ensures that the environment is not damaged as a result of business activity.

Regulates how people in work are treated, covering issues such as pay, contracts of employment and equality.

Past Paper Examination Question - 2012

Ruby and Dean have always wanted to start their own business. They have decided to set up their business, called Retro, on the outskirts of Swansea.

Ruby and Dean are aware that their business will be regulated by laws which will affect the operation of their business.

(e) Suggest and explain (i) one legal responsibility Ruby and Dean have to their customers and (ii) one legal responsibility they have to their employees. (4)

(i) customers

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(ii) employees

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The Macro-Economic Environment

There are a number of economic factors that can affect a business, these include tax rates, interest rates, exchange rates, inflation, employment levels and the general health of the economy. Each of these economic factors will be examined in turn below:

Taxation

There are several different types of tax payable in the UK:

- Income tax
- Value added tax (VAT)
- Corporation tax

1. Income tax

Income tax is a tax on a person's income, this form of tax is a statutory deduction from an employee's wages

2. Value added tax (VAT)

VAT is a tax on the purchase of goods and services. VAT is charged on most goods and services that consumers purchase (such as trainers and cinema tickets) and on goods and services that businesses purchase (such as accounting services and printer ink).

3. Corporation tax

Corporation tax is a tax on company profits, it is paid before shareholders are paid their dividend.

**Income tax is a statutory deduction from an employee's wages.
What does this mean?**

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**The pay employees receive from their employer is after income tax has been taken.
What is this pay called?**

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**The system for collecting income tax from workers is called PAYE.
What are these letters short for?**

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Effects of changes in tax

The Government can change its policy on taxation each year, it can raise taxes to increase the amount of money it receives (to spend on the NHS, schools etc.), or it can decide to reduce taxes to encourage more spending in the economy.

Any changes will affect both consumers and businesses alike, as the article below shows:

Government Changes VAT ... AGAIN!!!

The UK government has today increased the rate of VAT to 20%. VAT is payable on most goods and services we purchase, and so any change affects the amount of money in your wallets and purses.

Today's news means that people will now be worse off as the things we purchase become more expensive.

The increase means a £500 laptop now costs £510.34 and t-shirt that previously cost £9.99 now costs £10.20. More expensive items, like a £15,000 car now rises to £15,319.15.

This is only the latest in a long line of VAT changes. In December 2008 the government dropped the rate of VAT from 17.5% to 15% in response to the recession. However, this was only a temporary measure and VAT returned to 17.5% on 1st January 2010.

Business leaders are worried that the latest increase will lead to a fall in demand for goods and services, damaging companies across the UK.

4 January 2011

How do you think the increase in VAT in January 2011 might have affected the following stakeholders in businesses?

Customers

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Shareholders

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How do you think the increase in VAT in January 2011 might have affected the following stakeholders in businesses?

Workers

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The Government

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Evaluate whether each of the following statements are true or false:

Employees can choose whether or not they pay income tax.

True False

Some people do not have to pay income tax in the UK.

True False

Everybody in the UK is charged the same rate of income tax.

True False

VAT is a tax on beer and alcohol only.

True False

VAT is currently charged at 20%.

True False

Corporation tax is a tax on company profits.

True False

If the government reduces taxation on income, consumers will spend less on goods and services.

True False

If the government increases tax on company profits, it is likely that they will invest less money in expansion or new technology.

True False

The money earned from taxation is used by the government to provide public services like schools and hospitals.

True False

All goods have VAT charged on them, including books, magazines and children's shoes.

True False

Interest rates

Interest rates are the charges made to a business or individual for borrowing money, this money could be an overdraft, credit card, loan or mortgage. Interest rates are essentially the cost of borrowing money from a bank or building society.

What does a change in interest rates mean for borrowers?

Interest rate increase

If interest rates rise, more money than expected is needed to pay back any loans, borrowing becomes more expensive.

Interest rate decrease

If interest rates fall, less money than expected is needed to pay back loans, borrowing becomes less expensive.

However, interest rates can also be the return savers get from having savings in a bank or building society account. In relation to savings, this means that interest rates are the reward the saver receives from having money saved.

What does a change in interest rates mean for savers?

Interest rate increase

If interest rates go up, more money than expected is received on any savings in banks and building societies. As interest rates increase, saving becomes a more attractive option for consumers.

Interest rate decrease

If interest rates fall, less money than expected is received on any savings in banks and building societies. As interest rates fall, saving becomes a less attractive option.

Fill in the blanks

Fill in the blanks below with the following words:

Invest

Borrowing

Saving

Increase

More

More expensive

Less

Consumers and businesses

Rate of return

Goods and services

Interest rates are the cost of money from banks or the return you get from money in a bank.

If interest rates go up, then borrowing becomes . This means that consumers and businesses have to pay more towards their loans and so have less money available to spend.

Consumers decide to spend less on and save money instead as they will get a better on their savings. Businesses will have to watch their cashflow carefully to ensure their costs do not exceed their earnings.

If interest rates fall, borrowing becomes less expensive for . Consumers will also decide to save as they get less back for every pound in the bank.

Consumers demand as they have more disposable income and so businesses see an in their sales. Businesses are more likely to borrow money to in new technology and new premises.

Exchange rates

Each country has its own currency, for example Japan has the yen, Mexico has the peso, the UK has the pound and Poland has the zloty.

If goods or services are being bought from foreign businesses they will expect to be paid in their own currency, and so we would need to change our British pounds for the currency needed.

Exchange rates are simply the cost of switching from one currency to another.

The price of currencies do not stay the same – every day many different currencies are exchanged and their values can go up or down.

For example, you are going on holiday to the USA and you need to swap your British pounds into US dollars. You go in to the 'Bureau de Change' and see they are offering 1.5 dollars to the pound. You have saved £100 for the trip and so the £1: \$1.50 exchange rate means that your £100 will buy you \$150.

Using our example above, suppose the exchange rate increases to £1:\$1.60. This would mean that our same £100 would now buy us \$160.

However, if the exchange rate decreases to £1:\$1.40 then £100 would now only buy us \$140.

Exchange rate	Amount available to spend for every £100
£1 = \$1.40	£140
£1 = \$1.50	£150
£1 = \$1.60	£160

Any change in the exchange rate will affect the amount of money we have to spend.

It is not just consumers going on holiday that will need to exchange their money for different currencies. Any UK business trading with a foreign business (and vice versa) will need to use the correct currency.

Inflation Rates

Inflation is a general increase in prices across the economy. The word general is very important here, as it means that nearly all goods and services bought in the economy are rising in price.

Inflation is usually shown as a percentage, for example 2%. If inflation is currently 2% it means that prices are 2% higher than they were this time last year - a basket of goods bought last year for £100 would today cost £102 even though the goods bought are identical.

What does inflation mean for businesses?

Businesses need to purchase a variety of materials, as well as energy, water and premises, in order to run their business.

If the inflation rate is above 0%, it means that costs are rising.

For example, a clothes manufacturer will have to pay more for the cotton it uses and the energy it needs to power the sewing machines. A pay increase for company employees may also be required.

If costs are rising, most businesses would want to increase their prices, so they can maintain a certain level of profit. Under normal circumstances, if a business raised their prices then consumers would simply shop elsewhere. However, inflation affects all businesses and so they are all raising their prices - consumers do not have the option of shopping for cheaper goods elsewhere.

Employment levels and economic activity

Employment levels (the number of people in work in an economy) tend to rise and fall as the economy grows and declines, this has both benefits and drawbacks for business:

Economic growth

- Consumer demand for goods and services is high.
- Businesses need employees in order to meet consumer demand.
- Most people who want a job are already employed.
- In order to attract new employees businesses have to offer higher wages.
- Businesses will find it increasingly difficult to recruit someone with the right skills and qualities for the job.

Recession/slump

- Consumer demand for goods and services is low, as people have less disposable income to spend.
- A large number of people are unemployed and looking for work.
- If businesses decide to take on new workers, they will be able to choose from a wide pool of applicants.
- Wages will remain low as long as unemployment remains high.

Past Paper Examination Question - 2010 - Adapted

Great Gates and Co Ltd has a factory in South Wales. In this factory they produce wrought iron fences and gates. Some are made for supply to garden centres and do-it-yourself (DIY) shops.

Problems in the UK economy have meant that sales have fallen.

The Government can give help and support to businesses when there are problems in the economy.

(d) Below are two government policies. Suggest and explain *one* effect *each* might have on Great Gates' business. (4)

(i) A cut in the rate of income tax paid by Great Gates's customers.

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(ii) A cut in the rate of interest paid on Great Gates's overdraft.

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The Impact of Unforeseen Events

While a business may be able to predict a rise in interest rates or a new piece of legislation, it is sometimes affected by events that could not have been predicted.

The table below gives some examples of 'unforeseen events' that have affected the UK economy in recent years:

Year	Unforeseen events
2013	Severe winter weather Horse meat scandal
2012	Schmallenberg Virus Winter flooding
2011	BA cabin crew strike Post Office workers strike
2010	Ash cloud The big freeze
2009	Swine Flu pandemic Earthquake and tsunami in Japan
2008	Global credit crunch

In each of the scenarios below, how might the 'unforeseen event' impact on a business and two of its stakeholders?.

State which type of stakeholder and mention a positive and a negative impact in each case.

Scenario 1:

A well-known fast food chain has sourced meat from America that has been contaminated by a highly infectious virus sweeping through cattle.

It has not yet been confirmed that this virus is not transmitted between animals and humans.

	Positive	Negative
Business		
Stakeholder 1: <div style="background-color: white; height: 20px; width: 100%; margin-top: 5px;"></div>		
Stakeholder 2: <div style="background-color: white; height: 20px; width: 100%; margin-top: 5px;"></div>		

Scenario 2:

A global electronics manufacturer has its television manufacturing base centered in Bristol, but imports all materials and components from China.

An earthquake destroys nearly all of their supplier's production facilities.

	Positive	Negative
Business		
Stakeholder 1: <input style="width: 100%; height: 20px;" type="text"/>		
Stakeholder 2: <input style="width: 100%; height: 20px;" type="text"/>		

Scenario 3:

A UK based travel firm sends on average 200,000 tourists on holidays across Europe each week.

The sudden eruption of a volcano in Iceland has sent an ash cloud across European airspace and ground all flights in to, and out of, all major airports.

	Positive	Negative
Business		
Stakeholder 1: <input type="text"/>		
Stakeholder 2: <input type="text"/>		

Past Paper Examination Question - 2011

Businesses are affected by factors over which they have no control.

Explain how each of the following might affect businesses in the U.K.

(a) An increase in income tax. (2)

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(b) A very heavy fall of snow across all of the United Kingdom. (2)

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(c) A fall in the value of the pound against the euro. (2)

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